

Mr. Dean Kiklis, Vice President of Reimbursement  
Mariner Post-Acute Network  
530 Stonington Road  
Stonington, Connecticut 06378

Re: AC# 3-MAS-J8 – Mariner Health Care of Seneca

Dear Mr. Kiklis:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract periods beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

**MARINER HEALTH CARE OF SENECA**

**SENECA, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1999  
AC# 3-MAS-J8**

**REPORT ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 24, 2000

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Mariner Health Care of Seneca, for the contract periods beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Mariner Health Care of Seneca, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Mariner Health Care of Seneca, dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
May 24, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**MARINER HEALTH CARE OF SENECA**  
Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1999  
AC# 3-MAS-J8

Interim Reimbursement Rate (1)	\$105.18
Adjusted Reimbursement Rate	<u>102.68</u>
Decrease in Reimbursement Rate	\$ <u>2.50</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

**MARINER HEALTH CARE OF SENECA**  
Computation of Adjusted Reimbursement Rate  
For the Contract Periods Beginning October 1, 1999  
AC# 3-MAS-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$51.79	\$50.88	
Dietary		9.53	9.69	
Laundry/Housekeeping/Maint.		<u>9.51</u>	<u>8.24</u>	
Subtotal	\$ <u>-</u>	70.83	68.81	\$68.81
Administration & Med. Rec.	\$ <u>-</u>	<u>14.80</u>	<u>11.56</u>	<u>11.56</u>
Subtotal		85.63	<u>\$80.37</u>	80.37
<u>Costs Not Subject to Standards:</u>				
Utilities		3.54		3.54
Special Services		1.22		1.22
Medical Supplies & Oxygen		3.60		3.60
Taxes and Insurance		1.51		1.51
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$95.51</u>		90.25
Inflation Factor (3.00%)				2.71
Cost of Capital				7.84
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
CNA Add-On				.75
Nurse Aid Staffing Add-On				<u>1.13</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$102.68</u>

**MARINER HEALTH CARE OF SENECA**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MAS-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DHHS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$2,433,617	\$ -	\$ 2,103 (2)	\$2,431,514
Dietary	447,381	-	-	447,381
Laundry	121,568	-	-	121,568
Housekeeping	156,990	-	-	156,990
Maintenance	184,895	-	17,097 (2)	167,798
Administration & Medical Records	662,594	32,142 (2)	-	694,736
Utilities	166,906	-	614 (2)	166,292
Special Services	57,420	-	-	57,420
Medical Supplies & Oxygen	193,395	-	24,355 (3)	169,040
Taxes & Insurance	67,837	3,003 (2)	-	70,840
Legal Fees	300	-	-	300
Cost of Capital	462,222	1,565 (1)	78,648 (2)	368,284
	<u>          </u>	<u>          </u>	<u>16,855 (4)</u>	<u>          </u>
Subtotal	4,955,125	36,710	139,672	4,852,163



**MARINER HEALTH CARE OF SENECA**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MAS-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	108,829	-	-	108,829
Non-Allowable	580,191	63,317 (2)	1,565 (1)	658,798
	<u>          </u>	<u>16,855 (4)</u>	<u>          </u>	<u>          </u>
Total Operating Expenses	<u>\$5,644,145</u>	<u>\$116,882</u>	<u>\$141,237</u>	<u>\$5,619,790</u>
TOTAL PATIENT DAYS	<u>46,946</u>	<u>-</u>	<u>-</u>	<u>46,946</u>

TOTAL BEDS      132

**MARINER HEALTH CARE OF SENECA**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MAS-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$419,606	
	Cost of Capital	1,565	
	Accumulated Depreciation		\$360,500
	Other Equity		59,106
	Nonallowable		1,565
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Administration	32,142	
	Taxes and Insurance	3,003	
	Nonallowable	63,317	
	Nursing		2,103
	Maintenance		17,097
	Utilities		614
	Cost of Capital		78,648
	To adjust home office cost allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Other Revenue	24,355	
	Medical Supplies		24,355
	To properly offset income against related expense HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
4	Nonallowable	16,855	
	Cost of Capital		16,855
	To adjust capital return to allowable State Plan, Attachment 4.19D		
	Total Adjustments	<u>\$560,843</u>	<u>\$560,843</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MARINER HEALTH CARE OF SENECA**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MAS-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>132</u>
Deemed Asset Value	4,637,160
Improvements Since 1981	1,027,226
Accumulated Depreciation at 9/30/98	<u>(1,672,129)</u>
Deemed Depreciated Value	3,992,257
Market Rate of Return	<u>0.063</u>
Total Annual Return	251,512
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	251,512
Depreciation Expense	137,574
Amortization Expense	4,829
Capital Related Income Offsets	(25,631)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	368,284
Total Patient Days (Actual)	<u>46,946</u>
Cost of Capital Per Diem	\$ <u><u>7.84</u></u>

**MARINER HEALTH CARE OF SENECA**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 1998  
 AC# 3-MAS-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 7.04
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$11.03</u>
Reimbursable Cost of Capital Per Diem	\$ 7.84
Cost of Capital Per Diem	<u>7.84</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>